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July 2003

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Konstantinos Giannakas

University of Nebraska-Lincoln

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Cornhusker Economics. 125.

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Cornhusker Economics

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Institute of Agriculture & Natural Resources
Department of Agricultural Economics
University of Nebraska – Lincoln

The New EU Regulation on Gmos: Causes and Consequences

Market Report	Yr Ago	4 Wks Ago	7/11/03
<u>Livestock and Products,</u>			
<u>Average Prices for Week Ending</u>			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt	\$61.74	\$77.41	\$75.20
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt	*	91.61	*
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg	87.12	95.77	*
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt	96.66	126.39	117.86
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt	38.50	48.00	42.50
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd	*	*	*
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt	*	136.67	109.05
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt	84.17	*	90.12
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt	165.04	191.74	193.45
<u>Crops,</u>			
<u>Cash Truck Prices for Date Shown</u>			
Wheat, No. 1, H.W. Omaha, bu	3.53	3.25	3.11
Corn, No. 2, Yellow Omaha, bu	2.00	2.31	2.07
Soybeans, No. 1, Yellow Omaha, bu	5.55	6.14	5.98
Grain Sorghum, No. 2, Yellow Kansas City, cwt	3.71	3.94	3.63
Oats, No. 2, Heavy Minneapolis, MN, bu	1.87	1.75	1.54
<u>Hay,</u>			
<u>First Day of Week Pile Prices</u>			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton	107.50	117.50	115.00
Alfalfa, Lg. Round, Good Northeast Nebraska, ton	72.50	60.00	70.00
Prairie, Sm. Square, Good Northeast Nebraska, ton	97.50	127.50	*
* No market.			

On July 2 the European Parliament approved a new regulation governing Genetically Modified Organisms (GMOs) that includes a requirement for products with more than 0.9 percent of biotech material to be labeled as: *"This product is produced with GMOs."* The regulation also includes provisions for tracing GMOs at all stages of production. The regulation is expected to be approved by the Council of Ministers of Agriculture and pass into law before the end of the summer. The introduction of strict traceability and labeling requirements by the European Union (EU) is the latest event in an on-going dispute between the EU and the U.S. regarding Genetically Modified Products (GMPs).

The dispute between the EU and the U.S. around GMPs is the outcome of market interaction between parties holding significantly different views on the need for regulation of products of biotechnology. While the EU advocates mandatory labeling (or even banning) of GMPs based on its "precautionary principle" and the vocal consumer opposition to these products, the U.S. has argued the "substantial equivalency" of GMPs to their conventional counterparts and have been opposing the labeling of these products.

What is interesting is that both parties' arguments seem reasonable. Specifically, the U.S. is correct in claiming that the existing scientific evidence shows that GMPs are as safe as their conventional counterparts (i.e., "substantially equivalent"), and the EU is also correct in claiming that the long-term health and environmental effects of genetic modification are currently unknown (which justifies "precautions").

At the heart of the debate are, in my view, conflicting interests with respect to the development and adoption of the new technology. Governments are elected to serve the interests of their respective countries and that's exactly what the EU and the U.S. are doing. In particular, the EU has every incentive to constrain the development and



adoption of a technology that its consumers have expressed an aversion against, and the U.S. has every incentive to open up the markets for GMPs, since it is a major producer of these products and the major developer of the technology. Recent reports estimate the loss to the American producer due to the EU policy on GMPs to be around \$1 billion/year. Whether the figure is right or not, it does create pressure for the U.S. administration to “act.”

There are several questions about the new EU regulation that I will try to address below.

1. What caused the EU to move from banning GM crops to passing legislation that requires labeling?

The answer here is external pressure. The introduction of the new rules is, at least in part, a response to the recent complaint filed with the WTO by the U.S., Canada and Australia that challenges the effective EU ban on GM products that has been in place since 1998.

It needs to be understood that the new traceability and labeling requirements are consistent with the WTO position on the issue that backs strict labeling of GMPs. EU's resistance received support last year when a global treaty restricting GMOs (known as the *Cartagena Protocol on Biosafety* and supported by the U.S.) was approved! Even though the U.S. has reacted to the costs imposed by the new rules, the odds of winning a WTO challenge on the issue are not very good.

2. Is the new regulation consumer-driven or is it a political move as a non-tariff trade barrier?

If the polls on European consumer attitudes toward GMPs mean anything at all, the European consumer opposition to GMOs is very real. Recent polls show consumer opposition to products of biotechnology in places like France, Germany and Greece being as high as 85 percent.

Is this consumer opposition the reason behind the EU position on GMOs or is it just an excuse for the introduction of trade barriers to the European market? The answer depends on whom you ask. The EU contends that its policy is a simple response to its consumer demands and the existing uncertainty about the long-term effects of GMOs while the U.S. (and others) have characterized it as a European trick to justify the trade barrier - simple protectionism. One can only speculate. The fact though is that the introduction of mandatory labeling satisfies European consumers while creating barriers to exports of GMOs in the EU.

3. What is the likely impact of this legislation on third countries?

Countries that trade with the EU and seek to export GM crops to the EU will need to bring their regulatory frameworks in line with the European one.

For many producers, however, the costs of meeting the European standards will be prohibitively high. In fact, I expect the new rules to deter adoption of GM technology in developing countries where the transaction costs associated with the new traceability and labeling requirements will be very high (and certainly higher than any production cost savings generated by the adoption of the current, producer-oriented GM technology).

4. What impact will the new rules have on U.S. agriculture?

The strict labeling and traceability requirements introduced by the new regulation are expected to do two things.

First, they will impose very high transaction costs on the GM food supply chain that will have to trace GMOs at all stages of production. Some of these costs will be transferred to the consumer of GMPs, which will further reduce the “appeal” of these products in Europe.

Second, if the polls on European consumer attitudes toward GMPs mean anything at all, labeling of GMPs cannot increase consumer acceptance of these products - the market for these products in Europe seems to be quite small (and if extra costs imposed by the new rules are transferred to the consumer, they will make it even smaller).

As a conclusion, I would like to point out that I view the new EU regulation on GMOs as ingenious in achieving the EU objectives as (1) it makes exports of GMPs to the EU very costly, (2) it will not increase the market acceptance of GMOs in Europe, (3) it deters adoption of biotechnology in developing countries, and (4) it is consistent with the WTO position on the issue that backs strict labeling of GMPs.

The introduction of strict traceability and labeling requirements is not a good development for either the U.S. agriculture or the agricultural biotechnology sector.

Konstantinos Giannakas, (402) 472-2041
Associate Professor of Agricultural Economics, UNL